

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-243-WS - ORDER NO. 2007-888
DECEMBER 18, 2007

IN RE: Application of Harbor Island Utilities, Inc.)	ORDER APPROVING
for Approval of a New Schedule of Rates)	SETTLEMENT
and Charges for Water and Sewer Service)	AGREEMENT AND
Provided to Residential and Commercial)	INCREASE IN RATES
Customers in Harbor Island, Beaufort)	AND CHARGES
County)	

I. INTRODUCTION AND PROCEDURAL HISTORY

This matter comes before the Public Service Commission of South Carolina (hereinafter the “Commission”) on the proposed Settlement Agreement (“Agreement”) filed by the Office of Regulatory Staff (“ORS”) and Harbor Island Utilities, Inc. (“Harbor Island” or “the Company”) (together “Parties”).

This matter was initiated on June 25, 2007, when Harbor Island filed with this Commission an Application for approval of a new schedule of rates and charges for water and sewer service provided to residential and commercial customers in Harbor Island, Beaufort County. On August 24, 2007, Harbor Island filed a Revised Application (“Application”). See S.C. Code Ann. §58-5-240 (Supp. 2006). By its Revised Application, the Company sought an increase in annual water and sewer revenues of \$88,486.

By letter dated July 6, 2007, the Commission’s Docketing Department instructed Harbor Island to publish a prepared Notice of Filing, one time, in newspapers of general

circulation in the area affected by Harbor Island's Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. In the same letter, the Commission also instructed Harbor Island to notify directly, by U. S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing. Harbor Island furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published in a newspaper of general circulation in the area affected by Harbor Island's Application. The Company also provided the Commission with a letter in which Harbor Island certified that it had complied with the instruction of the Commission's Docketing Department to mail a copy of the Notice of Filing to all customers affected by the Application.

No Petitions to Intervene were filed in this case in response to the Notice of Filing. Pursuant to S.C. Code Ann. Section 58-4-10(B) (Supp. 2006), ORS is a party of record in this proceeding. ORS and Harbor Island are the only parties of record in the above-captioned docket. By letter dated August 10, 2007, the Harbor Island Owners Association, Inc. requested a public hearing in Beaufort County prior to the hearing scheduled in Columbia. The Beaufort County hearing was held on October 10, 2007.

As a result of settlement negotiations between them, the parties have determined that their interests are best served by settling the issues in this matter under the terms and conditions set forth below. ORS stated in the Agreement that the settlement serves the public interest, preserves the financial integrity of the Company, and promotes economic

development within the State of South Carolina. By signing the Agreement, all counsel acknowledged their respective clients' consent to its terms. The Agreement provided that the parties viewed the terms of the Agreement to be just and reasonable.

II. DISCUSSION OF THE COMMISSION'S JURISDICTION

By statute, the Commission is vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices, and measurements of service to be furnished, imposed, observed, and followed by every public utility in this State. S.C. Code Ann. Section 58-5-210 (1976). Further, it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price at which the company's service is rendered and the quality of that service. Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 303 S.C. 493, 401 S.E. 2d 672 (1991).

Further, the Settlement Policies and Procedures of the Commission (Revised 6/13/2006) are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document ("Consideration of Settlements") states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission's consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary

hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

This case presents issues of significant implication for the utility and the public interest. As such, this Commission convened “an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” No statute has changed the duties of the Commission in this regard.

III. THE HEARING AND PROPOSED SETTLEMENT AGREEMENT

A public hearing was held before the Commission on November 7, 2007, at 10:30 a.m., at the Commission’s offices located at 101 Executive Center Drive, Columbia, South Carolina. Harbor Island was represented by J. Thomas Mikell, Esquire. ORS was represented by Nanette S. Edwards, Esquire, and Shealy Boland Reibold, Esquire. At this hearing, the parties offered into the record the Agreement dated October 29, 2007. The parties further introduced into the record and stipulated to the settlement testimony of Harbor Island witness Robert G. Gross. The parties also stipulated to and included in the record the settlement testimony of ORS Witnesses Christina L. Seale and Willie J. Morgan. Mr. Gross, Ms. Seale, and Mr. Morgan additionally answered questions from the Commission regarding the terms and conditions of the Agreement.

The parties asserted before the Commission that the Agreement provides a schedule of proposed rates, terms, and conditions that are just and reasonable to both the Company and its customers. Specifically, Harbor Island accepted ORS’s accounting and pro forma adjustments and agreed to reduce its original requested increase in water and sewer revenues

of \$88,486 to an annual increase in water and sewer revenues of \$71,284, which produced an operating margin of 10.60%.

IV. CONCLUSION AND ORDER


We find that the rates agreed to by the parties, which are specified in the Agreement and adopted and attached to this Order as Order Exhibit 1, are just and reasonable and will allow Harbor Island to continue to provide its customers with adequate water and sewer services. Based on the record before us, we find that the Company has undertaken improvements that benefit its customers. Further, we find that the Company is currently operating under rates that do not allow it to earn a fair operating margin. The Agreement provides a schedule of proposed rates, terms, and conditions that are just and reasonable. Further, the agreed upon rates will allow the Company to earn a reasonable operating margin. The parties therefore agreed and stipulated to certain rates and charges and terms and conditions which we approve and set forth in the attached Order Exhibit 2. We agree and find that the rates and charges and terms and conditions contained in the Agreement are just and reasonable.

Upon our review and consideration of the Agreement, the evidence contained in the record of this case, the testimony of the witnesses, and the representations of counsel, the Commission concludes as a matter of law that the Agreement results in just and reasonable rates and fees for water and sewer agreed to by the Parties. Based on the operating revenues, operating expenses and operating income for return agreed upon by the parties, the resulting allowable operating margin for the Company is 10.60%. See S.C. Code Ann. § 58-5-240(H).

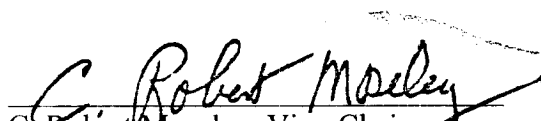
IT IS THEREFORE ORDERED THAT:

1. The Agreement, including attachments and attached hereto as Order Exhibit 1, is incorporated into and made a part of this Order by reference.
2. The proposed rates contained in the Agreement, have been entered into the record of this case without objection. We find that the schedule of rates and charges and terms and conditions attached hereto as Order Exhibit 2 is both just and reasonable and will allow the Company to continue to provide its customers with adequate water and sewer services.
3. The schedule of rates and charges attached hereto as Order Exhibit 2 is approved for service rendered on or after January 1, 2008.
4. An operating margin of 10.60% is approved for Harbor Island.
5. Harbor Island shall file a performance bond in the amount of \$215,000 for water and \$145,000 for sewer services by January 1, 2008.
6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


G. O'Neal Hamilton, Chairman

ATTEST:


C. Robert Moseley, Vice-Chairman

ATTACHMENT A

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2007-243-WS

October 29, 2007

Application of Harbor Island Utilities, Incorporated)
For Approval of a New Schedule of Rates and)
Charges for Water and Sewer Service Provided to)
Residential and Commercial Customers in Harbor)
Island, Beaufort County, South Carolina)

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and between the South Carolina Office of Regulatory Staff ("ORS") and Harbor Island Utilities, Incorporated. ("Harbor Island," "the Company," or "the Applicant") (together referred to as the "Parties" or sometimes individually as "Party").

WHEREAS, the Company has prepared and filed an Application for approval of a new schedule of rates and charges for water and sewer service provided to residential and commercial customers in Harbor Island, Beaufort County, South Carolina filed on August 24, 2007 ("Revised Application");

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2006);

WHEREAS, ORS has examined the books and records of the Company relative to the matters raised in the Revised Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests and in the case of ORS, in the public interest;

WHEREAS, following those discussions the Company has determined that its interests and ORS has determined that the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water and sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to obtain a reasonable operating margin.

1. The Parties stipulate and agree that the exhibits prepared by ORS and attached to the settlement testimony of Christina L. Seale (filed as Exhibit A) fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, revenue requirement, and operating margin.

2. The Parties stipulate and agree to include in the hearing record of this case the settlement testimony of Robert G. Gross (filed as Exhibit B), and the settlement testimony of Willie J. Morgan, including all exhibits attached to said pre-filed testimonies (filed as Exhibit C), without objection, change, or amendment.

3. The Parties stipulate and agree that the rate schedule, entitled Exhibit "WJM 5" to Settlement testimony of Willie J. Morgan, including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that

the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water and sewer customers at rates and terms and conditions of service that are fair, just and reasonable and provides the opportunity to recover the revenue required to earn a fair operating margin.

4. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

- ... 'public interest' means a balancing of the following:
- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
 - (2) economic development and job attraction and retention in South Carolina; and
 - (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

5. In its Revised Application, the Company has requested an increase in total operating revenues of \$88,486. As a compromise to their respective positions, the Parties stipulate and agree to an increase in total operating revenues of \$71,284. This increase is supported by the adjustments reflected in Exhibit A.

6. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation (including but not limited to the reduction in rate case

expenses) and therefore stipulate and agree for purposes of settlement in this case that an operating margin of 10.60% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement. In consideration of this Settlement Agreement, the Company agrees that no rate case expenses incurred after October 25, 2007 in relation to Docket No. 2007-243-WS shall be included for ratemaking purposes.

7. The Parties further stipulate and agree that this Settlement Agreement conclusively demonstrates the following: (i) the proposed accounting and pro forma adjustments and depreciation rates reflected in Exhibit A are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) the operating margin of 10.60% and an annual increase in total operating revenues of \$71,284, is fair, just, and reasonable when considered as a part of this stipulation and Settlement Agreement in its entirety; (iii) Harbor Island's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of water and sewer services, and (iv) Harbor Island's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission for service rendered by the Company on and after January 1, 2008.

8. The Company agrees to file with the Commission a performance bond for water service in the amount of \$215,000 and for sewer service in the amount of \$145,000 by January 1, 2008.

9. The Company agrees to provide advance notice to its customers prior to the implementation of these new rates.

10. The Company agrees to file a complete water audit report addressing water loss issues with the Commission pursuant to Commission Order 2002-866. A copy of the water audit report shall be submitted to the ORS.
11. The Company agrees to delete proposed tariff language regarding cost for delinquent accounts and keep a proposed \$10.00 charge for sending certified notice to delinquent customers.
12. The Company agrees to repair and/or replace fire hydrants on the island in response to concerns raised by ORS.
13. The Company agrees to continue to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform Systems of Accounts.
14. The Parties agree that Harbor Island may pass through increased costs it incurs pursuant to its contracts with Beaufort-Jasper Water & Sewer Authority and Fripp Island Public Service District. However, these increases shall be subject to providing the Commission satisfactory proof of the basis for the adjustment and sufficient notice to customers as set out in Harbor Island's Revised Application.
15. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

16. The Parties agree not to introduce or use this Settlement Agreement to constrain, inhibit, impair, or prejudice the other party in other proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

17. This Settlement Agreement shall be interpreted according to South Carolina law.

18. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

WE AGREE:

Representing the South Carolina Office of Regulatory Staff

Shealy Boland Reibold
Shealy Boland Reibold, Esquire

South Carolina Office of Regulatory Staff

1441 Main Street, Suite 300

Columbia, SC 29201

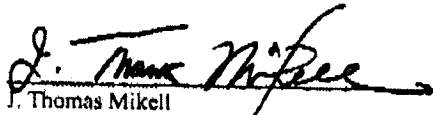
Phone: (803) 737-0863

Fax: (803) 737-0895

E-mail: sreibol@regstaff.sc.gov

WE AGREE:

Representing Harbor Island Utilities, Inc.

A handwritten signature in black ink, appearing to read "J. Thomas Mikell", is written over a horizontal line.

J. Thomas Mikell

J. Thomas Mikell, P.C.

Post Office Box 1727

Beaufort, SC 29901

Phone: (843) 524-2110

Fax: (843) 524-4995

E-mail: mikellaw@embarqmail.com

**THE OFFICE OF REGULATORY STAFF
SETTLEMENT TESTIMONY AND
EXHIBITS
OF
CHRISTINA L. SEALE**



EXHIBIT A

OCTOBER 29, 2007

DOCKET NO. 2007-243-W/S

**APPLICATION OF HARBOR ISLAND UTILITIES,
INCORPORATED FOR APPROVAL OF A NEW
SCHEDULE OF RATES AND CHARGES FOR
WATER AND SEWER SERVICE PROVIDED TO
RESIDENTIAL AND COMMERCIAL CUSTOMERS
IN HARBOR ISLAND, BEAUFORT COUNTY,
SOUTH CAROLINA**

SETTLEMENT TESTIMONY OF CHRISTINA L. SEALE**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2007-243-W/S****IN RE: HARBOR ISLAND UTILITIES, INC.**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Christina L. Seale. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a Bachelor of Science in Accounting with a minor in Computer Systems and Applications from Columbia College in 2000. From 2001 to 2004, I was employed by the South Carolina Office of the State Auditor. In that capacity, I performed agreed-upon procedures engagements and statewide single audits of various state agencies in South Carolina. In January 2005, I began my employment with ORS.

Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN THIS DOCKET?

A. The purpose of my settlement testimony is to set forth the adjustments agreed upon in the Settlement Agreement ("the Settlement") between ORS and Harbor Island

**THE OFFICE OF REGULATORY STAFF
1441 Main Street, Suite 300, Columbia, SC 29201**

1 Utilities, Inc. collectively referred to as "the Parties" in this docket. The adjustments
2 were based on ORS's examination of the Application of Harbor Island Utilities, Inc.
3 for approval of a new schedule of rates and charges for water and sewer service
4 provided to residential and commercial customers in Harbor Island, Beaufort County,
5 South Carolina filed on August 24, 2007 ("Revised Application").

6 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**
7 **SETTLEMENT TESTIMONY.**

8 A. I have attached the following exhibits to my settlement testimony relating to the
9 Revised Application of Harbor Island Utilities, Inc. ("Harbor Island", "HIU" or the
10 "Applicant"):

- 11 ▪ Settlement Audit Exhibit CLS-1: Operating Experience and Operating
12 Margin
- 13 ▪ Settlement Audit Exhibit CLS-2: Explanation of Adjustments
- 14 ▪ Settlement Audit Exhibit CLS-3: Computation of Depreciation and
15 Amortization
- 16 ▪ Settlement Audit Exhibit CLS-4: Computation of Income Taxes

17 These exhibits were either prepared by me or were prepared under my direction and
18 supervision in compliance with recognized accounting and regulatory procedures
19 for water and wastewater utility rate cases. These exhibits show various aspects of
20 Harbor Island's operations, its financial position and the adjustments agreed upon
21 in the Settlement.

22 **Q. PLEASE DESCRIBE THE FORMAT OF SETTLEMENT AUDIT EXHIBIT**
23 **CLS-1 AND ELABORATE ON THE CALCULATIONS.**

1 A. Settlement Audit Exhibit CLS-1 shows Harbor Island's operating experience and
2 operating margin for water and sewer operations for the test year ended October 31,
3 2006. The exhibit's format is designed to reflect the Revised Application per books
4 and the proposed accounting and pro forma adjustments, per the Settlement,
5 necessary to normalize the results of Harbor Island's test year operations.
6 Column (1) shows the Revised Application per books computed by Harbor Island for
7 the test year ended October 31, 2006. The net operating loss of (\$45,796) was based
8 on total operating revenues of \$345,192 less total operating expenses of \$390,988.
9 The net operating loss less interest expense of \$31,789 resulted in a total loss for
10 return of (\$77,585). The operating margin of (22.48%) was computed by dividing
11 the total loss for return by the total operating revenues.
12 Column (2) shows the proposed accounting and pro forma adjustments per the
13 Settlement designed to normalize HIU's Revised Application per books. An
14 explanation of each adjustment is contained in Settlement Audit Exhibit CLS-2.
15 Column (3) shows the result of a normalized test year for Harbor Island by adding
16 columns (1) and (2). The net effect of the proposed accounting and pro forma
17 adjustments per the Settlement decreased total loss for return to (\$16,590) resulting
18 in an operating margin of (4.79%).
19 Column (4) shows the proposed increase per the Settlement and the calculation of
20 taxes and customer growth associated with the proposed increase. An explanation of
21 each adjustment is contained in Settlement Audit Exhibit CLS-2.

1 Column (5) shows the effect of the proposed increase per the Settlement by adding
2 columns (3) and (4). The net effect after the proposed increase resulted in total
3 income for return of \$44,247 and an operating margin of 10.60%.

4 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN SETTLEMENT AUDIT**
5 **EXHIBIT CLS-2.**

6 A. The following adjustments are the same as the adjustments listed in Settlement Audit
7 Exhibit CLS-2 under "Adj. #". For comparative purposes, the Settlement and Harbor
8 Island's Revised Application adjustments are both presented in Settlement Audit
9 Exhibit CLS-2.

10 Adjustment 1 and 2 – The ORS Water/Wastewater Department and HIU propose to
11 adjust water sales and sewer revenue to reflect actual customer units. The water sales
12 and sewer revenues were calculated using current customers as of October 31, 2006
13 and the Public Service Commission's ("PSC") approved rates. Details of these
14 adjustments are shown on Settlement Exhibit WJM-3 attached to the settlement
15 testimony of Willie Morgan, ORS Water/Wastewater Program Manager.

16 Adjustment 3 – The Parties propose to remove fees of (\$2,109) collected from the
17 customers for the Safe Drinking Water Fee ("SDWF") passed through to the South
18 Carolina Department of Health and Environmental Control ("DHEC").

19 Adjustment 4 and 5 – The Parties propose to remove water and sewer tap fees
20 included in revenues of (\$4,500) and (\$1,152), respectively. ORS and HIU also
21 propose to include these fees in Contributions in Aid of Construction ("CIAC").
22 These fees are shown on Settlement Audit Exhibit CLS-3 under additional CIAC
23 amortized per the Settlement.

1 Adjustment 6 – The Parties propose to remove remissions of (\$2,124) of SDWF to
2 DHEC from expenses.

3 Adjustment 7 – The Parties propose no adjustment to legal expenses associated with
4 the last rate case consistent with PSC Order No. 2002-866.

5 Adjustment 8 – ORS and HIU propose to annualize insurance expense for the test
6 year by removing (\$882) from the test year expenses.

7 Adjustment 9 – ORS and HIU propose to remove accounting expenditures of (\$540)
8 and reclassify appropriately as rate case expenses in Adjustment 23.

9 Adjustment 10 – The Parties propose to remove charitable donations paid during the
10 test year of (\$100).

11 Adjustment 11 – ORS and Harbor Island propose to remove administrative expenses
12 of (\$389) incurred outside the test year, but included in the cost of service.

13 Adjustment 12 – The Parties propose to remove the portion of tap fees paid to Fripp
14 Island Public Service District (“FIPSD”) of (\$4,344). This is considered a pass
15 through.

16 Adjustment 13 – ORS and HIU propose to remove water tap expenditures of
17 (\$1,152). Also, the Parties propose to capitalize and depreciate these expenditures as
18 shown on Settlement Audit Exhibit CLS-3 under additional fixed assets
19 capitalized/removed per the Settlement.

20 Adjustment 14 – The Parties propose to adjust expense for water used at the HIU
21 wastewater treatment plant to actual gallons used multiplied by the PSC’s approved
22 rate, for an adjustment of \$714.

1 Adjustment 15 – ORS and HIU propose to remove operating and maintenance
2 expenses of (\$15,618) incurred outside the test year, but included in the cost of
3 service.

4 Adjustment 16 – The Parties propose to remove expenses of (\$490) incorrectly billed
5 by HIU's administrative and operator services company, the Beaufort Group, LLC.

6 Adjustment 17 – ORS and HIU propose to adjust sludge disposal expense to reflect
7 the average of the years 2004, 2005 and 2006 of \$8,910. ORS witness, Mr. Morgan,
8 recommended this as a reasonable approach to normalize the sludge disposal expense
9 for rate making purposes. As a result, the Parties removed (\$2,334) from the Revised
10 Application per book amount of \$11,244.

11 Adjustment 18 – The Parties propose to remove from expense and capitalize plant-in-
12 service expenditures of (\$1,689) as recommended by ORS witness, Mr. Morgan.
13 The fixed assets are shown on Settlement Audit Exhibit CLS-3 under additional fixed
14 assets capitalized/removed per the Settlement.

15 Adjustment 19 – The Parties propose to remove expenses of (\$2,522) incorrectly
16 paid on behalf of another company.

17 Adjustment 20 – The Parties propose to correct the posting of the return of a fixed
18 asset made by HIU. Harbor Island purchased and booked the fixed asset for \$1,904.
19 When this fixed asset was returned, HIU incorrectly posted the return to an expense
20 account. The Parties' adjustment proposes to reverse this posting in the expense
21 account by \$1,904. The returned fixed asset is removed from plant-in-service as
22 shown on Settlement Audit Exhibit CLS-3 under additional fixed assets
23 capitalized/removed per the Settlement.

1 Adjustment 21 – ORS and Harbor Island propose to reduce purchased water expense
2 to exclude water losses in excess of 10%, as approved in the prior PSC Order No.
3 2002-866. HIU purchased 40,346,000 gallons of water, but only sold 33,484,000
4 gallons, which leaves them with an approximate 17% water loss of 6,862,000
5 gallons. PSC Order No. 2002-866 states:

6 An unaccounted for water rate of 10% is the lower end of the range for
7 unaccounted for water according to the American Water Works
8 Association Manual M32 (1989), of which [the PSC] took judicial
9 notice. Thus, non-allowance of unaccounted for water over 10% is
10 reasonable, and based on the AWWA standard.

11 Therefore, the Parties propose to adjust expenses to reflect only a 10% water loss,
12 which would calculate water purchased of 37,204,444 (33,484,000 water sold / 90%).
13 The total cost of water purchased with a 10% water loss is \$90,034 (37,204,444 x
14 \$.00242 (current cost of water charged by FIPSD and Beaufort-Jasper Water and
15 Sewer Authority)). The Parties' adjustment is (\$6,094) (\$90,034 – less Revised
16 Application per book amount of \$96,128).

17 Adjustment 22 – ORS and HIU propose to adjust depreciation and amortization on
18 all fixed assets and CIAC as of October 31, 2006 to reflect useful lives per the
19 Settlement. The CIAC and capital expenditures identified in the test year and noted
20 in adjustments 4, 5, 13 and 18 are also included in CIAC and plant-in-service. The
21 fixed asset noted in Adjustment 20 is removed from plant-in-service. ORS calculated
22 total depreciation expense of \$7,944 (Net depreciation expense of \$17,598 less total
23 CIAC of \$9,654) and reduced it by the Revised Application per book depreciation

1 expense of \$15,212 for a total adjustment of (\$7,268) as shown on Settlement Audit
2 Exhibit CLS-3.

3 Adjustment 23 – ORS and Harbor Island propose to include amortized rate case
4 expenses for the test year, which include accounting rate case expenses noted in
5 Adjustment 9. The Parties adjusted for actual current rate case expenses as of
6 October 25, 2007 of \$20,320 amortized over a two-year period less the Revised
7 Application per book amount of \$1,000 for an adjustment of \$9,160.

8 Adjustment 24 – The Parties propose to remove property taxes of (\$8,858) incurred
9 outside of the test year, but included in the cost of service.

10 Adjustment 25 – The Parties propose to adjust the gross receipts taxes associated
11 with the revenues after the proposed accounting and pro forma adjustments per the
12 Settlement. The adjustment was calculated by multiplying total gross revenues
13 after the proposed accounting and pro forma adjustments per the Settlement by
14 .0101856 (PSC and ORS factor of .0071856 and the South Carolina Department of
15 Revenue's factor of .003) less the Revised Application per book amount of \$2,842.

16 Adjustment 26 – ORS and HIU propose to remove interest paid of (\$18,426) during
17 the test year on non-utility debt.

18 Adjustment 27 – ORS and HIU propose to remove interest paid of (\$614) during the
19 test year for a non-recurring and paid loan.

20 Adjustment 28 – ORS and HIU propose to annualize interest paid during the test year
21 on the loan used to purchase fixed assets and make capital improvements, which
22 consisted of the effluent line replacement and the filter for the wastewater treatment
23 plant. These fixed assets are shown on Settlement Audit Exhibit CLS-3. Annualized

1 interest expense was calculated using the loan balance at the end of the test year of
2 \$155,398 and 8.75% (prime rate of 8.25% plus .5%) for a total of \$13,597. The
3 Parties' adjustment is \$848 (\$13,597 – less Revised Application per book amount of
4 12,749).

5 Adjustment 29 and 30 – The Parties propose a rate increase which will produce
6 additional revenues of \$71,284, consisting of water sales of \$23,708 and sewer
7 revenues of \$47,576. Details of these adjustments are shown on Settlement Exhibit
8 WJM-3 of Mr. Morgan's settlement testimony.

9 Adjustment 31 – ORS and HIU propose to adjust gross receipts taxes associated with
10 the proposed increase per the Settlement. The total gross revenues for the proposed
11 increase were multiplied by the gross receipts factor described in Adjustment 25.

12 Adjustment 32 – The Parties propose to adjust income taxes associated with the
13 proposed increase per the Settlement. See Settlement Audit Exhibit CLS-4.

14 Adjustment 33 – ORS and HIU propose to adjust customer growth associated with
15 the proposed increase per the Settlement. The adjustment was calculated by
16 multiplying net operating income after the proposed increase per the Settlement by
17 .013937. The factor of .013937 is calculated and shown on Settlement Exhibit
18 WJM-4 of the ORS Water/Wastewater Program Manager, Willie Morgan.

19 **Q. PLEASE DESCRIBE THE REMAINING SETTLEMENT AUDIT EXHIBITS.**

20 A. Settlement Audit Exhibit CLS-3 shows the computation of depreciation and
21 amortization. In addition to fixed assets per Harbor Island's depreciation schedule in
22 the Revised Application, capital expenditures, CIAC and adjustments identified in
23 the test year are included. Depreciation expense was annualized by using useful lives

1 per the Settlement. Settlement Audit Exhibit CLS-4 shows the computation of the
2 state and federal income taxes based on taxable income after the proposed increase
3 per the Settlement. A state tax rate of 5% and the federal tax rates of 15% and 25%
4 were used to calculate the income taxes.

5 **Q. WHAT IS THE RESULTING OPERATING MARGIN AFTER APPLYING**
6 **THE PROPOSED INCREASE PER THE SETTLEMENT?**

7 A. The revenue increase proposed in the Settlement will produce an operating margin
8 after interest expense of 10.6%, as shown on Settlement Audit Exhibit CLS-1.

9 **Q. DO YOU HAVE ANYTHING ELSE YOU WOULD LIKE TO ADD?**

10 A. Yes. ORS appreciates the timely support and cooperation by Harbor Island in
11 providing the information needed to examine its books and records.

12 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

13 A. Yes.

SETTLEMENT AUDIT EXHIBIT CLS-1

Harbor Island Utilities, Inc.
Docket No. 2007-243-W/S
Operating Experience and Operating Margin
For the Test Year Ended October 31, 2006

	(1)	(2)	(3)	(4)	(5)
	Revised Application Per Books	Proposed Accounting & Pro forma Adjustments Per Settlement	After Proposed Accounting & Pro forma Adjustments Per Settlement	Proposed Increase Per Settlement	After Proposed Increase Per Settlement
<u>Operating Revenues</u>					
Water Sales	\$ 201,800	\$ 5,899 (A)	\$ 207,699	\$ 23,708 (L)	\$ 231,407
Sewer Revenue	134,998	2,722 (B)	137,720	47,576 (M)	185,296
Safe Water Drinking Fee	2,109	(2,109) (C)	0	0	0
Late Charges	633	0	633	0	633
Tap Fees	5,652	(5,652) (D)	0	0	0
<u>Total Operating Revenues</u>	\$ 345,192	\$ 860	\$ 346,052	\$ 71,284	\$ 417,336
<u>Operating Expenses</u>					
Administration	\$ 58,650	\$ (4,035) (E)	\$ 54,615	\$ 0	\$ 54,615
Water & Sewer Operation and Maintenance	204,741	(25,531) (F)	179,210	0	179,210
Water Purchase	96,128	(6,094) (G)	90,034	0	90,034
Depreciation and Amortization	15,212	(7,268) (H)	7,944	0	7,944
Rate Case	1,000	9,160 (I)	10,160	0	10,160
Taxes Other Than Income	15,257	(8,175) (J)	7,082	726 (N)	7,808
Income Taxes (State and Federal)	0	0	0	10,516 (O)	10,516
<u>Total Operating Expenses</u>	\$ 390,988	\$ (41,943)	\$ 349,045	\$ 11,242	\$ 360,287
<u>Net Operating Income (Loss)</u>	\$ (45,796)	\$ 42,803	\$ (2,993)	\$ 60,042	\$ 57,049
Add: Customer Growth	\$ 0	\$ 0	\$ 0	\$ 795 (P)	\$ 795
Less: Interest Expense	31,789	(18,192) (K)	13,597	0	13,597
<u>Total Income (Loss) for Return</u>	\$ (77,585)	\$ 60,995	\$ (16,590)	\$ 60,837	\$ 44,247
<u>Operating Margin</u>	-22.48%		-4.79%		10.60%

Harbor Island Utilities, Inc.
Docket No. 2007-243-W/S
Explanation of Adjustments
For the Test Year Ended October 31, 2006

Revenues and Expenses	Adj.#	Description	Settlement	Revised Application
<u>Proposed Accounting and Pro forma Adjustments Per Settlement</u>				
(A) Water Sales	1	To adjust water sales to reflect actual customer units.	5,899	5,687
(B) Sewer Revenue	2	To adjust sewer revenue to reflect actual customer units.	2,722	2,722
(C) Safe Water Drinking Fee	3	To remove fees collected from the customers for the SDWF passed through to DHEC.	(2,109)	(2,109)
(D) Tap Fees	4	To remove water tap fees from revenues and include in CIAC.	(4,500)	(4,500)
	5	To remove sewer tap fees from revenues and include in CIAC.	(1,152)	(1,152)
		Total Tap Fees	(5,652)	(5,652)
(E) Administration	6	To remove remissions of SDWF to DHEC from expenses.	(2,124)	(2,124)
	7	No adjustment is proposed to legal expenses associated with the last rate case consistent with the PSC Order No. 2002-866.	0	1,000
	8	To annualize insurance expense for the test year.	(882)	0
	9	To remove and reclassify accounting expenditures more appropriately classified as rate case expenses in Adjustment 23.	(540)	0
	10	To remove charitable donations paid during the test year.	(100)	0
	11	To remove administrative expenses incurred outside the test year, but included in the cost of service.	(389)	0
			(4,035)	(1,124)
(F) Water & Sewer Operation and Maintenance	12	To remove the portion of tap fees paid to FIPSD, as this is a pass through.	(4,344)	(4,344)
	13	To remove water tap expenditures from expenses and include in plant-in-service.	(1,152)	(1,152)
	14	To adjust for actual water used at the HIU wastewater treatment plant to the PSC approved rate.	714	(131)
	15	To remove operating and maintenance expenses incurred outside of the test year, but included in the cost of service.	(15,618)	0
	16	To remove expenses incorrectly billed by the Beaufort Group, LLC.	(490)	0
	17	To normalize sludge disposal expenses to reflect the average of a three-year period	(2,334)	0
	18	To capitalize plant-in-service expenditures incorrectly expensed.	(1,689)	0

Harbor Island Utilities, Inc.
Docket No. 2007-243-W/S
Explanation of Adjustments
For the Test Year Ended October 31, 2006

Revenues and Expenses	Adj.#	Description	Settlement	Revised Application
(F) Water & Sewer Operation and Maintenance (Continued)	19	To remove expenses paid in the test year for another company.	(2,522)	0
	20	To correct the improper posting of the return of a fixed asset.	1,904	0
			<u>(25,531)</u>	<u>(5,627)</u>
(G) Water Purchase	21	To reduce purchased water expense to reflect water losses in excess of 10% as approved in prior PSC Order No. 2002-866.	<u>(6,094)</u>	<u>(6,094)</u>
(H) Depreciation and Amortization	22	To adjust depreciation and amortization on all fixed assets and CIAC to reflect useful lives agreed upon in the Settlement.	<u>(7,268)</u>	<u>0</u>
(I) Rate Case	23	To amortize total rate case expenses over a two-year period including expenses reclassified from Adjustment 9.	<u>9,160</u>	<u>5,000</u>
(J) Taxes Other Than Income	24	To remove property taxes incurred outside the test year, but included in the cost of service.	(8,858)	(8,858)
	25	To adjust the gross receipts taxes associated with the proposed accounting and pro forma adjustments per the Settlement.	683	0
		Total Taxes Other Than Income	<u>(8,175)</u>	<u>(8,858)</u>
(K) Interest Expense	26	To remove interest paid during the test year on non-utility debt.	(18,426)	(18,426)
	27	To remove interest paid during the test year for a non-recurring and paid loan.	(614)	0
	28	To annualize interest paid during the test year on the loan used to purchase fixed assets and make capital improvements.	848	623
			<u>(18,192)</u>	<u>(17,803)</u>
<u>Proposed Increase Per Settlement</u>				
(L) Water Sales	29	To adjust water sales to reflect the proposed increase per the Settlement.	<u>23,708</u>	<u>30,894</u>
(M) Sewer Revenue	30	To adjust sewer revenues to reflect the proposed increase per the Settlement.	<u>47,576</u>	<u>57,592</u>
(N) Taxes Other Than Income	31	To adjust gross receipts taxes associated with the proposed increase per the Settlement.	<u>726</u>	<u>0</u>
(O) Income Taxes (State and Federal)	32	To adjust income taxes associated with the proposed increase per the Settlement.	<u>10,516</u>	<u>0</u>
(P) Customer Growth	33	To adjust customer growth associated with the proposed increase per the Settlement.	<u>795</u>	<u>0</u>

Harbor Island Utilities, Inc.
Docket No. 2007-243-W/S
Computation of Depreciation and Amortization
For the Test Year Ended October 31, 2006

SETTLEMENT AUDIT EXHIBIT CLS-3
Page 1 of 3

Date Acquired	Description	Cost Basis \$	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
Fixed Assets Per Revised Application:						
	<u>Pump Equipment</u>					
06/01/86	Water System - upgrade	7,706	17	5.88%	FD	7,706
09/12/00	Water System - upgrade	6,768	15	6.67%	451	3,157
04/30/01	Water System - upgrade	12,883	17	5.88%	758	4,548
08/19/04	Fence around pump	2,906	7	14.29%	415	1,245
01/23/06	Pete Duty & Associates	1,150	7	14.29%	164	164
	<u>Water Mains</u>					
07/01/86	Bridge Crossing	6,863	40	2.50%	172	3,612
08/01/86	Phase I Water Line	1,220	40	2.50%	31	651
11/27/89	Beach Walk Phase I	10,620	40	2.50%	266	4,788
	<u>Services</u>					
11/27/89	Beach Walk Phase I	10,286	40	2.50%	257	4,626
05/16/93	Kelp & Teal Court Connections	330	40	2.50%	8	112
	<u>Hydrants</u>					
07/01/86	Fire Hydrants	7,600	40	2.50%	190	3,990
11/27/89	Beach Walk Phase I	2,569	40	2.50%	64	1,152
08/03/00	Hydrants	1,300	20	5.00%	65	455
02/10/00	Hydrants	2,100	20	5.00%	105	735
	<u>Support Equipment</u>					
06/01/86	Centrifical Pump	1,197	3	33.33%	FD	1,197
01/12/95	Flushquip Retrieval Sys. Model T-1	1,570	3	33.33%	FD	1,570
01/12/95	Gastech Gas Monitor GT402	2,972	5	20.00%	FD	2,972
04/17/95	Sampler	2,297	5	20.00%	FD	2,297
04/17/95	Flow Meter	3,200	5	20.00%	FD	3,200
04/17/95	Chlorine scales	1,075	5	20.00%	FD	1,075
06/29/00	Tap costs (non-capital contributions)	2,022	15	6.67%	135	945
08/23/05	Equipment	745	5	20.00%	149	298
	<u>SS Pump Equipment</u>					
02/06/95	Pump Stations	20,000	11	9.09%	FD	20,000
08/02/02	Effluent Line	2,623	20	5.00%	131	655
06/24/04	2 4-HP Sewage Pumps	2,000	15	6.67%	133	399
08/19/04	Material	2,118	7	14.29%	303	909
	<u>SS Collection Systems</u>					
02/06/95	Sewer Collection System	9,300	25	4.00%	372	4,464
	<u>Effluent Line Replacement</u>					
02/10/03	Utility Drawings	298	20	5.00%	15	60
01/02/03	Cast Iron Pump	1,492	15	6.67%	100	400
11/01/03	Effluent Line Replacement	780	20	5.00%	39	156
09/28/05	Effluent Line Replacement	84,013	20	5.00%	4,201	8,402
	<u>TP Treatment Units</u>					
02/06/95	Treatment Plant	40,000	25	4.00%	1,600	19,200
04/12/02	Blower	3,102	12	8.33%	258	1,290
04/07/04	Blower	3,134	12	8.33%	261	783
05/01/04	Blower	5,522	12	8.33%	460	1,380
08/19/04	Fencing	2,906	25	4.00%	116	348
10/21/05	WW Treatment Plant Upgrade	1,307	20	5.00%	65	130
09/25/06	WW Treatment Plant Upgrade (Filter)	90,497	20	5.00%	4,525	4,525
09/25/06	WW Treatment Plant Upgrade (Filter)	1,904	20	5.00%	95	95

Harbor Island Utilities, Inc.
Docket No. 2007-243-W/S
Computation of Depreciation and Amortization
For the Test Year Ended October 31, 2006

Date Acquired	Description	Cost Basis	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
10/01/06	Treatment Units - Other (Labor for Filter)	16,922	15	6.67%	1,129	1,129
	<u>Sewer Tap Costs</u>					
10/31/06	Sewer Taps - 2006	3,680	15	6.67%	245	245

Total Depreciation Expense Per Revised Application
(using useful lives per Settlement)

17,278

Additional Fixed Assets Capitalized/Removed per Settlement:

07/05/06	BioCharge, etc. - United Labs. (FL#389)	689	5	20.00%	138	138
07/20/06	1720 C Turbidimeter (FL#394)	1,000	5	20.00%	200	200
09/25/06	WW Treatment Plant Upgrade (Filter)	(1,904)	20	5.00%	(95)	(95)
10/31/06	Water Taps - 2006	1,152	15	6.67%	77	77

Net Depreciation Expense

17,598

Contributions in Aid of Construction (CIAC) Per Revised Application:

Contributed Mains & Services

05/18/93	Kelp & Teal Court Connection	730	40	2.50%	18	252
03/14/96	Ocean Marsh Sewer Ext.	16,311	40	2.50%	408	4,488

Contributed-Meters

10/31/87	Water Tap Costs 1987 (FL#334)	504	15	6.67%	FD	504
10/31/88	Water Tap Costs 1988	204	15	6.67%	FD	204
10/31/89	Water Tap Costs 1989	183	15	6.67%	FD	183
10/31/90	Water Tap Costs 1990	140	15	6.67%	FD	140
02/28/91	Water Tap Costs 1991	478	15	6.67%	FD	478
10/31/92	Water Tap Costs 1992	729	15	6.67%	43	729
10/31/93	Water Tap Costs 1993	1,436	15	6.67%	96	1,344
10/31/94	Water Tap Costs 1994	1,893	15	6.67%	126	1,638
10/31/95	Water Tap Costs 1995	1,273	15	6.67%	85	1,020
10/31/96	Water Tap Costs 1996	1,947	15	6.67%	130	1,430
10/31/97	Water Tap Costs 1997	3,100	15	6.67%	207	2,070
10/31/98	Water Tap Costs 1998	2,502	15	6.67%	167	1,503
10/31/99	Water Tap Costs 1999	1,817	15	6.67%	121	968
04/30/01	Water Tap Costs 2000	6,148	15	6.67%	410	2,460
01/01/05	Water Tap Costs 2004	2,420	15	6.67%	161	322

Contributed Systems

05/14/93	Kelp & Teal Court - water mains	4,597	40	2.50%	115	1,610
05/14/93	Kelp & Teal Court - water services	3,819	18	5.56%	212	2,968
09/09/93	Sea Cottages mains & connections	8,968	40	2.50%	224	3,136
09/09/93	Sea Cottages fire hydrants	900	40	2.50%	23	322
09/09/93	Sea Cottages services	4,245	18	5.56%	236	3,304

Contributed Sewer Taps

10/31/95	Sewer Tap Costs 1995	20	15	6.67%	1	12
10/31/96	Sewer Tap Costs 1996	260	15	6.67%	17	187
10/31/97	Sewer Tap Costs 1997	380	15	6.67%	25	250
10/31/99	Sewer Tap Costs 1999	5,107	15	6.67%	341	2,728
01/01/05	Sewer Tap Costs 2004	2,420	15	6.67%	161	322

Harbor Island Utilities, Inc.
Docket No. 2007-243-W/S
Computation of Depreciation and Amortization
For the Test Year Ended October 31, 2006

SETTLEMENT AUDIT EXHIBIT CLS-3

Page 3 of 3

Date Acquired	Description	Cost Basis \$	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
<u>1996 Forward Systems</u>						
11/01/96	Harbor Key (Westmarsh.)	38,394	40	2.50%	960	10,560
11/01/96	Harbor Key (Westmarsh.)	8,775	40	2.50%	219	2,409
11/01/96	Harbor Key (Westmarsh.)	35,930	5	20.00%	FD	35,930
11/01/96	Harbor Key (Westmarsh.)	68,502	25	4.00%	2,740	30,140
11/01/96	Harbor Key (Westmarsh.)	5,855	15	6.67%	391	4,301
07/29/97	Ocean Marsh Sewer Ext.	65,589	40	2.50%	1,640	16,400

Total CIAC Amortization Per Revised Application
(using useful lives per Settlement)

9,277

Additional CIAC Amortized per Settlement:

10/31/06	Sewer Tap Costs 2006	4,500	15	6.67%	300	300
10/31/06	Water Tap Costs 2006	1,152	15	6.67%	77	77

Total CIAC Amortization

9,654

Net Depreciation Expense (Page 2 of 3)

17,598

Less: Total CIAC Amortization

(9,654)

Total Depreciation Expense for Test Year

7,944

Less: Per Revised Application Depreciation Expense

(15,212)

Depreciation and Amortization Adjustment

(7,268)

FD = Fully Depreciated

SETTLEMENT AUDIT EXHIBIT CLS-4

Harbor Island Utilities, Inc.
Docket No. 2007-243-W/S
Computation of Income Taxes
For the Test Year Ended October 31, 2006

	After Proposed Increase Per Settlement
Total Operating Revenues	\$ 417,336
Less: Operating Expenses	(349,771)
Less: Interest Expense	(13,597)
State Taxable Income	53,968
Less: State Income Taxes @ 5%	(2,698)
Federal Taxable Income	51,270
Federal Income Taxes:	
1st \$50,000 @ 15%	7,500
Remaining Balance @ 25%	318
Total Federal Income Taxes	7,818
Total State and Federal Income Taxes	10,516
Less: Income Taxes after Proposed Accounting and Pro forma Adjustments per Settlement	0
Income Taxes (State and Federal) Adjustment	\$ 10,516

SETTLEMENT TESTIMONY OF ROBERT G. GROSS**FOR****HARBOR ISLAND UTILITIES, INC.****DOCKET NO. 2007-243-WS****IN RE: HARBOR ISLAND UTILITIES, INC.****EXHIBIT B**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert G. Gross, and my business address is 12 Fairfield Road, Suite 1-B, Ladys Island, SC 29907.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I earned a Bachelor of Science degree in Chemical Engineering in 1970 from the University of South Carolina and a Master of Science in Chemical Engineering, also from the University of South Carolina, in 1971. I worked at the SC Department of Health & Environmental Control from 1972 to 1987, where I was responsible for all wastewater programs when I left the agency. I became an environmental consultant in 1987 and have continued that practice until the present. In 2000, I began an operations and maintenance program within my business. My company currently operates and maintains five water and sewer systems in the Beaufort/Jasper Counties area.

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a professional engineer and the president of The Beaufort Group, LLC.

1 **Q. WHAT IS YOUR WORK EXPERIENCE OR BACKGROUND WITH**
2 **HARBOR ISLAND UTILITIES, INC.?**

3 A. I acquired Harbor Island Utilities in 2000 and am the company's president.

4 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT**
5 **POSITION WITH HARBOR ISLAND UTILITIES?**

6 A. As the president of Harbor Island Utilities, among other things, I make
7 management decisions on the financial aspects of the company; handle
8 governmental and regulatory matters; oversee and manage plant operations;
9 supervise customer issues; and make decisions on the operation and maintenance
10 issues facing the company.

11 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY IN**
12 **THIS PROCEEDING?**

13 A. The purpose of my settlement testimony is to sponsor the Settlement Agreement
14 in this docket regarding the company's application for adjustment of certain rates
15 and charges for the provision of water and sewer charges. Also, I will be
16 providing the Commission with an overview of the company and its operations,
17 including the area in which it is authorized to provide services, an outline of the
18 history of the company, a review of its performance from an operational
19 standpoint, a description of the company's facilities, and some of the expenses
20 incurred in providing water and sewer services. Finally, I will discuss the
21 Settlement Agreement between Harbor Island Utilities and the Office of
22 Regulatory Staff and support its adoption by the Commission. Also, my
23 testimony will address some of the conditions facing Harbor Island Utilities.

1 **Q. WHICH AREAS ARE CURRENTLY SERVED BY HARBOR ISLAND**
2 **UTILITIES?**

3 A. Harbor Island Utilities serves residential and commercial customers on Harbor
4 Island, which is a barrier island located between St. Helena Island and Hunting
5 Island, in Beaufort County.

6 **Q. PLEASE DESCRIBE THE PLANT AND FACILITIES THAT COMPRISE**
7 **THE WATER AND SEWER SYSTEMS IN THE SERVICE AREA?**

8 A. Harbor Island Utilities purchases water at a wholesale rate from the Beaufort-
9 Jasper Water & Sewer Authority and sells it to its customers. The water is stored
10 in a 350,000-gallon tank, from which it is pumped through a distribution system
11 to its customers. The company collects sewage and transports it through a series
12 of pump stations and forcemains to a wastewater treatment plant. The wastewater
13 undergoes tertiary treatment before being pumped about five miles to Fripp Island
14 where the Fripp Island Public Service District completes the treatment process
15 and disposes of it via land application on the Ocean Point Golf Course.

16 **Q. DOES HARBOR ISLAND PROVIDE WATER AND WASTEWATER**
17 **TREATMENT SERVICE TO ITS CUSTOMERS IN CONFORMITY**
18 **WITH ITS PERMIT FROM THE SOUTH CAROLINA DEPARTMENT**
19 **OF HEALTH AND ENVIRONMENTAL CONTROL (DHEC)?**

20 A. Yes. DHEC has issued two operating permits to Harbor Island Utilities – one for
21 the water system and one for the wastewater system. The company is committed
22 to operating in an environmentally responsible manner.

23

1 **Q. WHEN WAS A GENERAL RATE INCREASE LAST REQUESTED BY**
2 **HARBOR ISLAND UTILITIES?**

3 A. The company last filed an application for a general rate increase on September 11,
4 2002. The Docket Number was 2002-239-W/S. By Commission Order No.
5 2002-866, dated December 23, 2002, the Commission granted the company rate
6 relief, and the increased rates became effective in February 2003.

7 **Q. WHY IS HARBOR ISLAND UTILITIES REQUESTING RATE RELIEF**
8 **AT THIS TIME?**

9 A. For the test year ending October 31, 2006, Harbor Island Utilities experienced a
10 per book operating loss of \$45,796. When the interest expense is factored in, that
11 loss becomes \$77,585. Without rate relief, Harbor Island Utilities will not be able
12 to meet its financial obligations. Such a scenario places in jeopardy the
13 company's ability to provide safe, reliable, and efficient water and sewer services
14 to its customers.

15 **Q. WHAT HAS THE COMPANY'S EXPERIENCE BEEN WITH THE COSTS**
16 **OF OPERATION SINCE ITS LAST RATE INCREASE?**

17 A. It has been almost five years since the company's last rate increase. In that time,
18 the company's expenses have increased across the board. The company has
19 experienced increased operational expenses such as electricity, sludge disposal,
20 effluent disposal, the wholesale cost of water, and maintenance and repair of
21 equipment. In addition, the company was required by the S.C. Department of
22 Transportation to relocate the effluent transmission line from the bridge crossing
23 Johnson Creek when that bridge was replaced in 2005. Further, the company was

1 required to install tertiary filtration to comply with the new limitations in the
2 permit re-issued by DHEC.

3 **Q. HAS THE COMPANY EXPERIENCED ANY CUSTOMER GROWTH**
4 **SINCE ITS LAST RATE CASE?**

5 A. Yes. Growth has occurred at the rate of approximately ten homes per year.

6 **Q. WHAT IS A RATE INCREASE DESIGNED TO ACCOMPLISH FOR THE**
7 **COMPANY?**

8 A. The rate increase is designed to provide sufficient revenues to recover additional
9 investment in capital; to repair equipment as it ages; to replace equipment when it
10 is no longer serviceable; and, to accommodate the growth as it continues on the
11 island.

12 **Q. HAS HARBOR ISLAND ENTERED INTO A SETTLEMENT**
13 **AGREEMENT WITH THE OFFICE OF REGULATORY STAFF?**

14 A. The Office of Regulatory Staff examined our application in this docket comparing
15 it to the books, records, and facilities at Harbor Island Utilities. As a result of this
16 examination, they have proposed a rate adjustment that is fair and equitable.
17 Harbor Island Utilities has entered into a Settlement Agreement with the Office of
18 Regulatory Staff.

19 **Q. IS THE SETTLEMENT AGREEMENT A REASONABLE MEANS OF**
20 **RESOLVING THE ISSUES IN THIS CASE?**

21 A. Yes it is. The agreed upon rates are based on a 10.6% operating margin and allow
22 the company to earn sufficient revenue to ensure safe and reliable service to its
23 customers at an affordable rate. The company believes that the proposed

1 settlement rates fairly distribute the costs of providing these services to the
2 consumer, while at the same time placing the company on a more stable financial
3 footing. Additionally, the Office of Regulatory Staff has stipulated that this
4 agreement serves the public interest.

5 The company is committed to operating in an environmentally responsible
6 manner. We believe that the agreed upon rates in the comprehensive Settlement
7 Agreement are reasonable, fair, responsible, non-discriminatory, and justified
8 when considered as part of the Settlement Agreement in its entirety and in light of
9 the customers' needs, the company's requirements to meet customers' needs, and
10 the company's commitment to do so in compliance with the regulations of this
11 Commission, DHEC, and other regulatory agencies having jurisdiction over the
12 company.

13 **Q. AT THE NIGHT HEARING ON OCTOBER 10, THE COMMISSION**
14 **HEARD COMMENTS ABOUT THE CONDITION OF FIRE HYDRANTS**
15 **ON HARBOR ISLAND. HAS THE COMPANY RESOLVED THESE**
16 **ISSUES?**

17 **A.** Yes, to the extent these issues could be resolved by and were the responsibility of
18 the utility, they have been resolved.

19 **Q. DO YOU HAVE ANYTHING ELSE YOU WOULD LIKE TO ADD?**

20 **A.** Yes. Harbor Island Utilities, its legal counsel, and technical consultant appreciate
21 the professionalism and thoroughness of the Office of Regulatory Staff.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 **A.** Yes, it does.

**THE OFFICE OF REGULATORY STAFF
SETTLEMENT TESTIMONY AND EXHIBITS
OF
WILLIE J. MORGAN**



EXHIBIT C

DOCKET NO. 2007-243-WS

**Application of Harbor Island Utilities,
Incorporated for Approval of a New Schedule of
Rates and Charges for Water and Sewer Service
Provided to Residential and Commercial
Customers in Harbor Island, Beaufort County,
South Carolina**

SETTLEMENT TESTIMONY OF WILLIE J. MORGAN

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-243-WS

IN RE: HARBOR ISLAND UTILITIES, INC.

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Willie J. Morgan, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the state of South Carolina, Office of Regulatory Staff ("ORS") as the Program Manager for the Water and Wastewater Department.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science Degree in Engineering from the University of South Carolina in 1985 and a Master of Arts Degree in Management from Webster University in 2000. I am a licensed Professional Engineer registered in the State of South Carolina. My professional affiliations include membership in the American Water Works Association ("AWWA"), the South Carolina Section of the American Water Works Association ("SC-AWWA") and the National Society of Professional Engineers ("NSPE"). After graduating from the University of South Carolina, I was employed by the South Carolina Department

1 of Health and Environmental Control ("DHEC") as an Environmental Engineer
2 Associate. Later, I was promoted to the position of Permitting Liaison where I
3 assisted industries and the public with environmental permitting requirements in
4 the state of South Carolina. This assistance included providing information about
5 air quality, solid and hazardous waste management, and water and wastewater
6 management requirements. I was employed by DHEC for nineteen years. On
7 October 2, 2004, I joined the ORS as the Program Manager for the Water and
8 Wastewater Department.

9 **Q. DO YOU HAVE ANY PUBLICATIONS TO YOUR CREDIT?**

10 A. Yes.

11 **Q. WHAT ARE THE NAMES OF SOME OF THOSE PUBLICATIONS?**

12 A. While at DHEC, I published several editions of a document called "A General
13 Guide to Environmental Permitting in South Carolina." This guide is a summary
14 of the various environmental requirements that affect businesses and industries
15 located or operating within the State of South Carolina. Another publication I
16 authored includes a document called "Environmental Protection Fees." This
17 document is a summary of the fees charged for environmental programs. It
18 includes detailed information about the fees collected by water utilities to
19 implement the Safe Drinking Water Act Regulatory Program, fees collected from
20 wastewater utilities to manage the National Pollution Discharge Elimination
21 System ("NPDES") Program, and fees collected for construction activities
22 associated with water and wastewater utilities.

1 In March, 2007, I authored and presented a paper at the annual South Carolina
2 Environmental Conference called "Rate Setting for Private and Investor Owned
3 Public Utilities." The purpose of the paper and presentation was to discuss the
4 distinct roles of the Public Service Commission of South Carolina
5 ("Commission") and ORS concerning rate adjustments for private or investor
6 owned utilities in South Carolina.

7 **Q. CAN YOU DESCRIBE YOUR RESPONSIBILITIES AS THE PROGRAM**
8 **MANAGER FOR WATER AND WASTEWATER WITH THE OFFICE OF**
9 **REGULATORY STAFF?**

10 A. Yes. My responsibilities include performing analyses and providing testimony in
11 formal proceedings before the Commission regarding rate base determinations,
12 rate schedules, general terms and conditions, cost of service and depreciation
13 studies, and compliance with applicable rules and regulations. In addition, my
14 responsibilities include monitoring federal activity to determine its impact on state
15 regulations and policies.

16 **Q. HAVE YOU COMPLETED ADDITIONAL TRAINING AND/OR**
17 **EDUCATION SINCE YOUR GRADUATION FROM THE UNIVERSITY**
18 **OF SOUTH CAROLINA?**

19 A. I have completed courses in preparation for the professional engineering
20 examination as well as various review and continuing professional education
21 courses. The continuing professional education courses include attendance at the
22 2004 Eastern National Association of Regulatory Utility Commissioners
23 ("NARUC") Utility Rate School: Basics of Ratesetting, the 2006 SC-AWWA

1 Annual Meeting, 2006 Regulating Small Water Utilities Workshop, 2007 CAMP
2 NARUC, and other water and wastewater facility specific courses.

3 **Q. HOW LONG HAVE YOU PROVIDED REGULATORY OVERSIGHT**
4 **AND ENGINEERING SERVICES TO WATER AND WASTEWATER**
5 **FACILITIES?**

6 A. I have over twenty-one years of regulatory compliance experience providing
7 assistance and regulatory oversight for water and wastewater facilities and
8 services.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. The purpose of my testimony is to provide a brief overview of the Settlement
12 Agreement reached between ORS and Harbor Island Utilities, Inc. ("Harbor
13 Island") in this proceeding and to explain why this Settlement Agreement is in the
14 public interest. Specifically, I will focus on Harbor Island's compliance with the
15 Public Service Commission ("Commission") rules and regulations, ORS's
16 Business Audit of Harbor Island's water and wastewater systems, test-year
17 revenue and calculated proposed revenue, and performance bond requirements.

18 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**
19 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

20 A. Yes, my testimony and the attached exhibits detail ORS's findings and
21 recommendations.

22 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
23 **TESTIMONY AND EXHIBITS.**

1 A. I used ORS Business Audit results, information provided by Harbor Island in its
2 application and additional information provided by Harbor Island during the
3 course of our investigation. I also reviewed Harbor Island's financial statements
4 and performance bond documents submitted to the Commission.

5 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATIONS, SERVICE**
6 **TYPES AND CUSTOMER BASE SERVED BY HARBOR ISLAND.**

7 A. Harbor Island is a public utility providing water distribution services and
8 wastewater collection/treatment services. Harbor Island is a NARUC Class B
9 water utility and a NARUC Class C wastewater utility according to water and
10 sewer revenues reported on its application for the test year ending October 31,
11 2006. Harbor Island's service area includes a portion of Beaufort County.
12 According to Harbor Island's application for the test year ending October 31,
13 2006, water distribution services were provided to 439 residential and commercial
14 customers, and wastewater collection and treatment services were provided to 419
15 residential and 6 commercial customers. All of Harbor Island's customers are on
16 Harbor Island in Beaufort County.

17 **Q. PLEASE EXPLAIN EXHIBIT WJM-1 OF YOUR REPORT.**

18 A. Exhibit WJM-1, consisting of three pages, provides a summary of the Business
19 Office Compliance Review completed by ORS. During the Business Office
20 Compliance Review, ORS reviewed Harbor Island's office records to determine
21 compliance with Commission rules and regulations.

22 As expected of a Class B water utility, Harbor Island utilizes a customized
23 computer database to capture all customer account transactions. Harbor Island's

1 customer bills, disconnect notices, payment plans and deposit receipts contain all
2 required information and are issued to customers in a timely manner. Harbor
3 Island has met the Annual Report and Gross Receipts requirements as well.

4 **Q. PLEASE EXPLAIN EXHIBIT WJM-2 OF YOUR REPORT.**

5 A. Exhibit WJM-2, consisting of two pages, is a summary of the water distribution
6 system and wastewater collection and treatment systems inspected by ORS on
7 August 22, 2007.

8 **Water Distribution**

9 Harbor Island currently provides adequate water distribution services to its
10 residential and commercial customers. Water is provided to customers by Harbor
11 Island from an outside bulk water provider, Beaufort-Jasper Water & Sewer
12 Authority (BJWSA) via Fripp Island Public Service District (FIPSD). Required
13 operator logs were being kept at the facility and were audited by ORS. As
14 required by the Commission regulations, general housekeeping items including
15 system entry points, access roads and signage were found to be satisfactory during
16 the audit. Potable water and irrigation consumption are metered to all customers.
17 Safe drinking water quality standards are being met according to the recent DHEC
18 sanitary survey report. When problems are identified, Harbor Island appears to be
19 addressing the issues in a timely manner.

20 **Wastewater Collection and Treatment Systems**

21 Harbor Island provides wastewater treatment on the island with additional
22 treatment provided by the FIPSD on Fripp Island in Beaufort County. The final
23 wastewater effluent is discharged to a golf course on Fripp Island under a "no

1 discharge permit.” During the ORS inspection, all the wastewater collection and
2 treatment systems were operating adequately and in accordance with DHEC rules
3 and regulations. No major construction activity is being proposed by Harbor
4 Island for its wastewater collection and treatment systems and no immediate need
5 exists for any major upgrade to the current system. However, the utility will need
6 to make some minor routine repairs to some areas at its treatment plant (i.e.,
7 repair walking grate at top of treatment unit, repair bar screen, etc.).

8 **Q. EXPLAIN THE TEST YEAR REVENUE INFORMATION COMPUTED**
9 **BY ORS FOR HARBOR ISLAND.**

10 A. Exhibit WJM-3 summarizes Harbor Island’s service revenues for the test year
11 ending October 31, 2006. ORS used consumption data provided by Harbor Island
12 and verified during the audit. In addition, ORS used Harbor Island’s current and
13 proposed Settlement rates for all calculations. In summary, ORS calculated
14 Harbor Island’s test year service revenue for water operations, after accounting
15 and pro forma adjustments, of \$207,699. ORS calculated Harbor Island’s test
16 year service revenue for wastewater operations, after accounting and pro forma
17 adjustments, of \$137,720. ORS calculated test year revenues for combined
18 operations, as adjusted, of \$345,419. For comparison purposes, ORS calculated
19 the proposed Settlement water service revenues of \$231,407. ORS calculated the
20 proposed Settlement wastewater service revenues of \$185,296. At the proposed
21 Settlement rates, combined operations revenue would total \$416,703. As shown
22 in Exhibit WJM-4, the projected growth for Harbor Island is approximately
23 1.39% per year.

1 **Q. PLEASE EXPLAIN EXHIBIT WJM-5 OF YOUR REPORT.**

2 A. Exhibit WJM-5 is a summary of the current PSC approved rates for Harbor
3 Island, rates proposed in the application, and the Settlement Agreement proposed
4 rates for Harbor Island.

5 **Q. PLEASE EXPLAIN THE STATUS OF THE PERFORMANCE BOND FOR**
6 **HARBOR ISLAND.**

7 A. The purpose of a utility's performance bond is to provide sufficient financial
8 assurance to both the customer and the Commission in the event that the utility
9 fails to provide safe and adequate service. Pursuant to 26 S.C. Code Ann. Regs.
10 103-512.3.1, "the amount of bond shall be based on, but not limited to, the total
11 amount of the following categories of expenses for twelve months: Operation and
12 Maintenance Expenses, General and Administrative Expenses, Taxes Other Than
13 Income Taxes, Income Taxes, and Debt Service including Interest Expenses." The
14 bond amount is also set forth in S.C. Code Ann. Section 58-5-720 (Supp. 2006).
15 The Commission's regulations state that the bond amounts must range from an
16 amount not less than \$100,000 and not more than \$350,000.
17 Harbor Island has a current performance bond filed with the Commission for
18 water and sewer operations which use a Personal Financial Statement as surety in
19 the amount of \$100,000 for water and \$100,000 for sewer. Based on the expenses
20 from the test year and using the criteria set forth in 26 S.C. Code Ann. Regs. 103-
21 512.3.1 and 103-712.3.1, ORS determined that the face amount of Harbor Island's
22 bond should be \$215,000 for water operations and \$145,000 for wastewater
23 operations (Exhibit WJM-6). Harbor Island's adjusted bonding criteria expenses

1 for the test year were \$215,694 for water operations and \$143,022 for wastewater
2 operations. Combined bonding criteria expenses, as adjusted totaled \$358,716 for
3 the test year ending October 31, 2006. To protect the ratepayers in the event the
4 utility becomes non-viable, Harbor Island, pursuant to the Settlement Agreement,
5 has agreed to file with the Public Service Commission a performance bond for
6 water and wastewater operations in the amount \$215,000 and \$145,000
7 respectively as set forth in S.C. Code Ann. Section 58-5-720 (Supp. 2006).

8 **Q. ON WHAT BASIS DOES ORS MAKE DEPRECIABLE SERVICE LIFE**
9 **RECOMMENDATIONS?**

10 A. ORS recommendations are based on the conclusions outlined in the Florida Public
11 Service Commission Water and Wastewater System Regulatory Law as
12 recommended by the NARUC staff. ORS's approach and conclusions made
13 concerning depreciation are consistent with the Public Utility Depreciation
14 Practices manual as published by NARUC in 1996. Some adjustments were made
15 because of the specific conditions associated with the site and its location. This
16 included the advanced corrosion that was taking place on some of the metal parts
17 of the wastewater treatment plant and the water supply pumping system.

18 **Q. DOES ORS SUPPORT HARBOR ISLAND'S PROPOSED**
19 **MODIFICATION TO ITS TARIFF LANGUAGE REGARDING TERMS**
20 **AND CONDITIONS RELATED TO ADMINISTRATIVE AND LEGAL**
21 **FEES FOR DELINQUENT ACCOUNTS?**

22 A. ORS supports Harbor Island's proposed modification of terms and conditions
23 listed in its proposed tariff for the authority to recover administrative and legal

1 fees from delinquent accounts. However, as agreed to in the proposed Settlement,
2 Harbor Island shall limit the collectible amount from delinquent customers to
3 following:

4 Returned Check Charge (NSF) – All returned check accounts shall be
5 assessed the NSF fee allowed by S.C. Code Ann. Section 34-11-70(a)(3)
6 (Supp. 2006).

7 Delinquent Notification Fee - A \$10 fee shall apply when Harbor Island
8 mails a notice of discontinuance of service pursuant to 26 S.C. Code Ann.
9 Regs.103-535, 103-535.1, 103-735, and/or 103-735.1.

10 As presented in the proposed Settlement, Harbor Island has agreed to remove the
11 “At Cost” reference as presented in the proposed tariff and has agreed that
12 charges for delinquent customers will be limited to the above referenced amounts
13 and conditions.

14 **Q. DOES ORS SUPPORT HARBOR ISLAND’S PROPOSED**
15 **MODIFICATION TO ITS TARIFF LANGUAGE REGARDING**
16 **PURCHASED WATER ADJUSTMENT AND EFFLUENT**
17 **STORAGE/DISPOSAL ADJUSTMENT?**

18 A. Yes. Harbor Island purchases its potable water from BJWSA. The water is
19 transported through a pipe owned by FIPSD. Whenever there is a price
20 adjustment for the purchase or transportation of potable water to Harbor Island by
21 BJWSA or FIPSD, Harbor Island has proposed to increase the unit price to its
22 customers as a pass-through cost by adjusting the consumption charge on their
23 water bills.

1 Harbor Island pumps its treated effluent to FIPSD for final disposition. FIPSD
2 charges Harbor Island an effluent storage fee based on its actual costs. Whenever
3 there is a price increase by FIPSD, Harbor Island has proposed to increase the
4 consumption charge on the customer's bill by 9 cents for each 1 cent per 1,000
5 gallon increase by FIPSD.

6 All water and sewer rate adjustments to the customers of Harbor Island for water
7 supply and effluent disposal will be properly noticed. Harbor Island has proposed
8 to provide advance notice to the Commission and the customers affected by the
9 adjustment. Therefore, ORS believes this method for managing the cost of
10 providing good quality service protects the integrity of the utility and is in the best
11 interest of the consumer.

12 **Q. WHAT CONCERNS DO YOU HAVE REGARDING ANY**
13 **UNACCOUNTED FOR WATER BY HARBOR ISLAND?**

14 A. Utilities can no longer afford to ignore inefficiencies in their water distribution
15 systems. Increases in pumping, treatment and operational costs make water losses
16 and unaccounted for water cost prohibitive. Unaccounted for water on Harbor
17 Island's system is ultimately passed on to the customers in the form of higher
18 rates. The BJWSA and FIPSD charges to the utility are based on the cost of all
19 water provided to Harbor Island through the master meter. This cost is shared
20 with the customers. According to the Environmental Protection Agency (EPA),
21 an 8% allowance for unaccounted for water is acceptable; but unaccounted for
22 water of more than 12% requires priority attention and corrective action. The 8%
23 allowance is consistent with Commission Order No. 91-231 on page 15 in Docket

No. 90-124-W/S and Order No. 2000-0354 on page 4 in Docket No. 1999-344-W/S which allowed approximately 7.5% as a “reasonable percentage for lost water.” For the test year, Harbor Island provided ORS with information stating that it purchased (master meter) 40,346,000 gallons of water and sold (metered) 33,484,000 gallons of water to its customers. The difference is 6,862,000 gallons, which represents an unaccounted for water rate of approximately 17%. Unaccounted for water is the difference between water supplied (metered at the master meter) and metered use (i.e., sales plus non-revenue producing metered water).

$$\text{Unaccounted for water (\%)} = \frac{(\text{Supplied} - \text{metered use}) \times 100\%}{(\text{Supplied})}$$

Q. HOW CAN HARBOR ISLAND RESOLVE ITS UNACCOUNTED FOR WATER PROBLEM?

A. In an effort to eliminate or lower its unaccounted for water statistics, Harbor Island should conduct a water audit. According to the American Water Works Association (AWWA) Manual of Water Supply Practices, Water Audits and Leak Detection, 2nd Ed., page 2, “Water audits should be performed annually to help managers adjust priorities, monitor progress, identify new areas of system losses, and establish new maintenance goals.” A water audit can identify how much water is lost and what that loss is costing the utility and its customers. Records and system control equipment (such as meters) should be checked for accuracy. The overall goal of the audit is to assist Harbor Island in the selection and implementation of programs to reduce distribution system losses and thus help to avoid higher rates for the customers. As presented in the proposed Settlement,

1 Harbor Island has agreed to submit a water audit report addressing unaccounted
2 for water issues as requested pursuant to Commission Order No. 2002-866 in
3 Docket No. 2002-239-WS.

4 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SETTLEMENT**
5 **AGREEMENT REACHED BY THE PARTIES OF RECORD.**

6 A. Following extensive discussions, the parties have each determined that their
7 interests, as well as the interest of the public would be best served by settling all
8 pending issues in this proceeding.

9 It is the position of ORS that the Settlement Agreement, as presented to this
10 Commission, is a fair, reasonable and full resolution to all issues in this
11 proceeding. Further, the Settlement Agreement represents the public interest as it
12 preserves the balance referred to in S.C. Code Ann. Section 58-4-10:

13 ... 'public interest' means a balancing of the following:

- 14
- 15 (1) Concerns of the using and consuming public with
16 respect to public utility services, regardless of the
17 class of customer;
 - 18
 - 19 (2) Economic development and job attraction and
20 retention in South Carolina; and
 - 21
 - 22 (3) Preservation of the financial integrity of the State's public utilities
23 and continued investment in and maintenance of utility facilities so
24 as to provide reliable and high quality utility services.
25

26 All parties agree that an increase in rates and charges is necessary for Harbor
27 Island to provide its residential and commercial customers with safe and adequate
28 water and wastewater services. ORS determined Harbor Island is currently
29 operating under rates that do not allow it to earn a fair operating margin. The

1 Settlement Agreement provides a schedule of proposed rates, terms and
2 conditions that are fair and reasonable to both the customer and Harbor Island and
3 will allow Harbor Island the opportunity to earn a fair operating margin.
4 Specifically, Harbor Island has agreed to reduce its rates from those proposed in
5 the revised application for both residential and commercial water and sewer
6 charges. ORS and Harbor Island recommend in the Settlement Agreement an
7 operating margin of 10.6% which will provide a prudent balance between the
8 consumer's need for affordable, quality services and Harbor Island's financial
9 health.

10 As stated earlier, it is the position of ORS and Harbor Island that this Settlement
11 Agreement is fair and reasonable and represents full resolution of all issues in this
12 proceeding and I would request the Commission approve the Settlement
13 Agreement as presented today.

14 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes it does.

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2007-243-WS

Application of Harbor Island Utilities, Incorporated for Approval of a New Schedule of Rates and Charges for Water and Sewer Service Provided to Residential and Commercial Customers in Harbor Island, Beaufort County

WILLIE J. MORGAN SETTLEMENT TESTIMONY

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
WJM-1	ORS Business Office Compliance Review	ORS
WJM-2	ORS Water/Wastewater System Inspection Report	ORS
WJM-3	Service Revenue Impact	ORS
WJM-4	Customer Growth Analysis	ORS
WJM-5	Harbor Island Current Rates, Rate Proposed in Application, and Proposed Settlement Rates	ORS
WJM-6	Performance Bond Requirement	ORS

**REVIEW OF WATER AND WASTEWATER SERVICES
HARBOR ISLAND UTILITIES, INC.
DOCKET: 2006-243-WS**

The Office of Regulatory Staff (“ORS”) of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer deposit records of Harbor Island Utilities, Inc. (“Harbor Island”) in preparation for this rate case. Harbor Island currently provides water distribution, wastewater collection, and wastewater treatment services to commercial and residential customers in Harbor Island’s service area. This includes a portion of Beaufort County. As of June 30, 2007, Harbor Island was providing water services to 446 units along with 36 fire hydrants and wastewater services to 429 units.

The ORS Consumer Services Department received no consumer complaints regarding Harbor Island during the test year. Since the Notice of Filing was mailed to Harbor Island’s customers, the Public Service Commission has received no Petitions to Intervene. However, a request was made asking the Commission to hold a night hearing on this matter on Harbor Island.

ORS determined Harbor Island provides adequate water distribution service and wastewater collection/treatment service. During Harbor Island’s latest sanitary survey, DHEC rated the system as “Needs Improvement.” The overall rating for its wastewater treatment plant facility evaluation inspection was rated by DHEC as “Marginal.”

The following 2 pages provide a summary of the ORS Business Compliance Audit results.



ORS BUSINESS OFFICE COMPLIANCE REVIEW: Water/Sewer Company

Utility: Harbor Island Utilities, Inc.
 Inspector(s): Willie Morgan / Elizabeth Ford / Tina Seale
 Office: 12 Fairfield Road, Suite 1-B, Ladys Island, SC
 Utility Type: Water and Sewer
 Date: August 22, 2007
 Company Representative(s): Mr. Bob Gross & Ms. Claudia McKeown

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.		X	Some complaints were not being recorded in utility records. However, the utility appears to be properly responding to complaints. The utility stated that it would begin to record all complaints & resolution.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.	X		Copy of new regulations was provided to utility.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.	X		Utility will add reference on cutoff notice about the PSC.
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	X		
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		Customer bills are issued immediately following the reading of their meter.
7	Bill forms in accordance with R.103-532 and R.103-732.	X		
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	X		
10	Notices sent to customers prior to termination in accordance with Rule R.103-535 and 103-735.	X		
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.	X		

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	X		
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, and emergencies during non-office hours.	X		
15	Utility verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the utility has at present time.			461 water taps 435 sewer taps
17	Utility has a current performance bond on file with the Commission. Amount of bond:	X		\$100k for water service \$100k for sewer service
18	Utility maintains a documented Safety Program.	X		The utility does not have a separate written safety plan. Safety program is incorporated in other plans.
19	Utility maintains a documented Emergency Response plan.	X		
20	Utility maintains a documented Preventative Maintenance plan.	X		
21	Utility submitted a current Annual Report.	X		
22	Utility is in compliance with Gross Receipts reporting and payment regulations.	X		



ORS WATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected: August 22, 2007
 Inspector Name: Willie Morgan / Elizabeth Ford
 Docket Number: 2007-243-WS
 Utility Name: Harbor Island Utilities, Inc.
 Utility Representative: Bob Gross
 Number of Customers: 461 (443 residential, 8 commercial, 9 irrigation, 1 wwtf)
 System Type (distribution, well, etc): Storage & Distribution
 Location of System: Harbor Island, SC
 Location of Utility Office: 12 Fairfield Road, Suite 1-B, Ladys Island, SC
 Treatment Type: None
 Permit #: 0750013
 Last SC DHEC Compliance Rating: November 29, 2006 - Needs Improvement
 Frequency checked by Licensed Operator: Daily
 Wastewater Provider: Harbor Island Utilities, Inc.

Inspection Overview

	System Components Inspected	Specific Type	#	P S I	Capacity	Compliance		Comments
						Yes	No	
1	Well Sites		0					
2	Pump Houses		0					1 service pump, 2 fire pumps
3	Storage Tank	Pressurized	0					
3a	Storage Tank	Non-Pressurized	1		350k			ground level
3b	Storage Tank	Overhead	0					
4	Chlorinator		0					N/A
5	Other Chemicals in use		0					N/A
6	Meters		461			X		
7	Fire Hydrants		36			X		
8	Electrical Wiring acceptable					X		
9	Piping acceptable					X		
10	Water free of air					X		
11	Water free of sand					X		
12	Water clarity					X		
13	System free of leaks					X		
14	Water free of observed odor					X		
15	Access road adequate					X		
16	Ability for service area to expand					X		Capacity exists for new customers to be added w/in existing service area

Additional Comments:



ORS WASTEWATER SYSTEM INSPECTION REPORT

Inspection Overview

Date Inspected:	August 22, 2007
Inspector Name:	Willie Morgan / Elizabeth Ford
Docket Number:	2007-243-WS
Utility Name:	Harbor Island Utilities, Inc.
Utility Representative:	Bob Gross
Number of Customers:	435
System Type (collection, force main, lagoon, etc):	Collection, force main, treatment in tanks
Location of System:	Harbor Island, SC
Location of Utility Office:	12 Fairfield Road, Suite 1-B, Ladys Island, SC
Treatment Type:	Tertiary Treatment
Permit #:	ND0065919
Last SC DHEC Compliance Rating:	February 20, 2007 - Marginal
Frequency checked by WWTF Operator:	Daily
Drinking Water Provider:	Harbor Island Utilities, Inc.

Inspection Results

	System Components Inspected	Yes	No	Comments
1	Chlorinator	X		
2	Other chemicals in use		X	
3	Aerators present		X	2 blowers
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition			N/A - system is an above ground treatment system
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable	X		Discharge to holding pond at Fripp Island
14	Lift Stations present	X		8 lift stations
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand		X	Capacity exists for new customers to be added w/in existing service area

Additional Comments:

Effluent discharged to golf course on Fripp Island. No Discharge permit. Capacity of system is \$250k gallons per day.

HARBOR ISLAND UTILITIES, INC.
2007-243-WS

SERVICE REVENUE IMPACT
FOR THE TEST YEAR ENDING OCTOBER 31, 2006

Calculated Test Year Revenues at Current Rates

Customer Classification	Consumption in Gallons	Usage Charge per 1,000 gallons	Service Units	Base Facility Charge (BFC)	Test Year Calculated Revenues (1)
3/4" Res Water	27,364,213	\$3.60	5,123	\$16.12	181,094
Irrigation	1,425,470	\$3.60	N/A	N/A	5,132
3/4" Irrigation	N/A	N/A	48	\$16.12	774
1" Irrigation	N/A	N/A	36	N/A	648
1 1/2" Irrigation	N/A	N/A	24	\$24.00	576
Commercial Water	4,043,700	\$3.60	N/A	N/A	14,557
WWTP Consumpt	362,640	\$3.60	N/A	N/A	1,306
Hydrant Consumpt	287,977	\$3.60	N/A	N/A	1,037
3/4" Comm Water	N/A	N/A	60	\$21.75	1,305
1" Comm Water	N/A	N/A	24	\$24.26	582
1 1/2" Comm Water	N/A	N/A	4	\$32.00	128
WWTP	N/A	N/A	12	\$21.75	261
Hydrant Use	N/A	N/A	6	\$50.00	300
Water Service Total	33,484,000		5,337		207,699
Residential Sewer	0.00	\$0.00	4,944	\$27.50	135,960
Commercial Sewer	0.00	\$0.00	64	\$27.50	1,760
Sewer Service Total	0.00		5,008		137,720
Combined Operations³	33,484,000		10,345		345,419

Calculated Revenues at Proposed Settlement Rates

Customer Classification	Consumption in Gallons	Proposed Usage Charge per 1,000 gallons	Service Units	Proposed Base Facility Charge (BFC)	Proposed Calculated Revenues (1)	Increase Amount	% Increase
3/4" Res Water	27,364,213	\$4.12	5,123	\$17.24	201,061	\$19,967	11.03%
Irrigation	1,425,470	\$4.12	N/A	N/A	5,873	\$741	14.44%
3/4" Irrigation	N/A	N/A	48	\$17.24	828	\$54	7.01%
1" Irrigation	N/A	N/A	36	\$21.00	756	\$108	16.67%
1 1/2" Irrigation	N/A	N/A	24	\$26.50	636	\$60	10.42%
Commercial Water	4,043,700	\$4.12	N/A	N/A	16,660	\$2,103	14.44%
WWTP Consumpt	362,640	\$4.12	N/A	N/A	1,494	\$189	14.44%
Hydrant Consumpt	287,977	\$4.17	N/A	N/A	1,201	\$164	15.63%
3/4" Comm Water	N/A	N/A	60	\$24.00	1,440	\$135	10.34%
1" Comm Water	N/A	N/A	24	\$27.00	648	\$66	11.31%
1 1/2" Comm Water	N/A	N/A	4	\$33.00	132	\$4	3.13%
WWTP	N/A	N/A	12	\$24.00	288	\$27	10.34%
Hydrant Use	N/A	N/A	6	\$65.00	390	\$90	30.00%
Water Service Total	33,484,000		5,337		231,407	\$23,708	11.41%
Residential Sewer	0.00	\$0.00	4,944	\$37.00	\$182,928	\$46,968	34.55%
Commercial Sewer	0.00	\$0.00	64	\$37.00	\$2,368	\$608	34.55%
Sewer Service Total	0.00		5,008		\$185,296	\$47,576	34.55%
Combined Operations²	33,484,000		10,345		416,703	\$71,284	20.64%

Calculation Methodology:

- (1) Consumption and Units reflected as reported during test year. Growth factor not included for comparison purposes.
- (2) Customer Late Charges, Tap Fees, Reconnection Fees, Set-up Fees, Deposits and Interest on Deposits are not included in any of the above computations.
- (3) *ORS adjustments to test year and proposed revenue were less than \$2500.00.*

HARBOR ISLAND UTILITIES, INC.
2007-243-WS
CUSTOMER GROWTH INFORMATION

SETTLEMENT EXHIBIT WJM-4

	November 1, 2005	October 30, 2006	June 30, 2007	Average	Growth Factor
Commercial Sewer	5	6	6	5.5	0.090909
Residential Sewer	404	419	423	411.5	0.018226
3/4" Commercial Water	5	5	5	5	0
1" Commercial Water	2	2	2	2	0
1 1/2" Commercial Water	0	1	1	0.5	1
WWTP	1	1	1	1	0
Residential Water	423	430	431	426.5	0.008206
3/4" Irrigation	4	4	4	4	0
1" Irrigation	3	3	1	3	0
1 1/2" Irrigation	2	2	1	2	0
Hydrant Rental	0	0	0	0	0
TOTAL ACTIVE UNITS	849	873	875	861	0.013937

Harbor Island Utilities, Inc.
2007-243-WS
Rates Overview

SETTLEMENT EXHIBIT WJM-5

<u>Current</u>		<u>Proposed Rates In Application</u>		<u>Proposed Settlement Rates</u>
<u>USER FEES - WATER</u>				
<u>Residential</u> 3/4" meter	Base	\$16.12 /month	\$19.00 /month	\$17.24 /month
	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$18.00 /month	\$21.00 /month	\$21.00 /month
	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$24.00 /month	\$26.50 /month	\$26.50 /month
<u>Commercial Water Service</u> 3/4" meter	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$21.75 /month	\$24.00 /month	\$24.00 /month
	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$24.26 /month	\$27.01 /month	\$27.00 /month
	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
<u>Landscape Irrigation</u> 3/4" meter	Base	\$32.00 /month	\$33.00 /month	\$33.00 /month
	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$16.12 /month	\$19.00 /month	\$17.24 /month
	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$18.00 /month	\$21.00 /month	\$21.00 /month
<u>Meters Used for Multiple Residential Units</u> Minimum monthly charge	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$24.00 /month	\$26.50 /month	\$26.50 /month
	Commodity	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
	Base	\$16.12 /unit	\$19.00 /unit	\$17.24 /unit
	Commodity charge	\$3.60 /1,000 gals.	\$4.12 /1,000 gals.	\$4.12 /1,000 gals.
<u>FIRE HYDRANT USAGE</u>				
Installation Charge		\$50.00	\$65.00	\$65.00
	Advance Payment	\$50.00	\$75.00	\$75.00
	Cost per 1,000 gallons	\$3.60	\$4.25	\$4.17

Harbor Island Utilities, Inc.
2007-243-WS
Rates Overview

SETTLEMENT EXHIBIT WJM-5

<u>Current</u>	<u>Proposed Rates In Application</u>	<u>Proposed Settlement Rates</u>
	<u>RECONNECTION FEES</u>	
Disconnection/Reconnect at Customer's Request	\$50.00 *	\$50.00 *
Disconnection/Reconnect due to Nonpayment	\$50.00 *	\$50.00 *
	<u>TAP FEES</u>	
<u>Single Units</u>		
3/4" meter	\$687.00	\$1,200.00
1" meter	\$1,037.00	\$1,600.00
1 1/2" meter	\$1,187.00	\$1,800.00
2" meter	\$2,187.00	\$2,700.00
<u>Master Meter for Multiple Units</u>		
1" - 2" (plus cost meter installation for proposed rate)	\$687.00 /unit	\$1,200.00 /unit
Greater than 2" (plus cost of meter installation)	\$500.00 /unit	\$600.00 /unit
	<u>ADVANCE PAYMENT</u>	
For Water Used During Construction (paid with tap fees)	\$100.00 *	\$100.00 *
	<u>USER FEES - SEWER</u>	
Residential	\$27.50	\$37.00
Commercial	\$27.50 min. for 10,500 gals. \$1.50 per 1,000 gal excess usage (Sewerage flow is determined by using SCDHEC wastewater unit load allocation)	\$37.00 min. for 10,500 gals. \$1.50 per 1,000 gal excess usage (Sewerage flow is determined by using SCDHEC wastewater unit load allocation)
	<u>TAP FEES - SEWER</u>	
Residential	\$500.00 *	\$500.00 *
Trailer Park	\$250.00 /pad*	\$250.00 /pad*
Commercial: Water supplied through 1" - 1 1/2" meter	\$850.00 *	\$850.00 *

Harbor Island Utilities, Inc.
2007-243-WS
Rates Overview

SETTLEMENT EXHIBIT WJM-5

	<u>Current</u>	<u>Proposed Rates In Application</u>	<u>Proposed Settlement Rates</u>
Administrative set-up fee for new customers	\$0.00	\$25.00	\$25.00
Pass through rate increase from Beaufort-Jasper Water and Sewer Authority (BJWSA) and Frapp Island Public Service District (FIPSD) after a 60-day notice to PSCSC and 30-day notice to customers	\$0.00	At Cost	At Cost
Authority to recover administrative and legal fees from delinquent accounts	\$0.00	At Cost	\$10.00

* No change to previously approved rates

HARBOR ISLAND UTILITIES, INC.
2007-243-WS
Performance Bond Requirement

SETTLEMENT EXHIBIT WJM-6

Harbor Island Utilities, Inc. - Water			
Bond Value Components	Per Revised Application	After Proposed Accounting & Pro forma Adjustments Per Settlement	After Proposed Increase Per Settlement
Administration	\$35,266	\$32,840	\$30,329
Water & Sewer Operation and Maintenance	\$123,110	\$107,758	\$99,520
Water Purchase	\$57,801	\$54,137	\$49,998
Depreciation and Amortization	\$9,147	\$4,777	\$4,412
Rate Case	\$601	\$3,748	\$5,642
Taxes Other Than Income	\$9,174	\$4,258	\$4,336
Income Tax (State and Federal)	\$0	\$0	\$5,840
Interest Expense	\$19,115	\$8,176	\$7,551
Bond Value Requirement	\$254,214	\$215,694	\$207,628
Harbor Island Utilities, Inc. - Wastewater			
Bond Value Components	Per Revised Application	After Proposed Accounting & Pro forma Adjustments Per Settlement	After Proposed Increase Per Settlement
Administration	\$23,384	\$21,775	\$24,286
Water & Sewer Operation and Maintenance	\$81,631	\$71,452	\$79,690
Water Purchase	\$38,327	\$35,897	\$40,036
Depreciation and Amortization	\$6,065	\$3,167	\$3,532
Rate Case	\$399	\$2,486	\$4,518
Taxes Other Than Income	\$6,083	\$2,824	\$3,472
Income Tax (State and Federal)	\$0	\$0	\$4,676
Interest Expense	\$12,674	\$5,421	\$6,046
Bond Value Requirement	\$168,563	\$143,022	\$166,256
Harbor Island Utilities, Inc. - Combined			
Bond Value Components	Per Revised Application	After Proposed Accounting & Pro forma Adjustments Per Settlement	After Proposed Increase Per Settlement
Administration	\$58,650	\$54,615	\$54,615
Water & Sewer Operation and Maintenance	\$204,741	\$179,210	\$179,210
Water Purchase	\$96,128	\$90,034	\$90,034
Depreciation and Amortization	\$15,212	\$7,944	\$7,944
Rate Case	\$1,000	\$6,234	\$10,160
Taxes Other Than Income	\$15,257	\$7,082	\$7,808
Income Tax (State and Federal)	\$0	\$0	\$10,516
Interest Expense	\$31,789	\$13,597	\$13,597
Bond Value Requirement	\$422,777	\$358,716	\$373,884
Current Performance Bond Structure (1)	Bond Value	Expiration Date	
Personal Financial Statement (Robert Gross)	\$200,000	12/31/07	
Total Financial Assurance	\$200,000		

(1) Personal Financial Statement secures performance bond of \$100,000 for water operations and \$100,000 for wastewater operations.

HARBOR ISLAND UTILITIES, INC.

SCHEDULE OF RATES AND CHARGES

WATER

1. Monthly Charges

Residential

$\frac{3}{4}$ " meter:	\$17.24 per month
1" meter:	\$21.00 per month
1 $\frac{1}{2}$ " meter:	\$26.50 per month
Commodity Charge:	\$4.12 per 1,000 gallons

Commercial

$\frac{3}{4}$ " meter:	\$24.00 per month
1" meter:	\$27.00 per month
1 $\frac{1}{2}$ " meter:	\$33.00 per month
Commodity Charge:	\$4.12 per 1,000 gallons

Landscape Irrigation

$\frac{3}{4}$ " meter:	\$17.24 per month
1" meter:	\$21.00 per month
1 $\frac{1}{2}$ " meter:	\$26.50 per month
Commodity Charge:	\$4.12 per 1,000 gallons

Multiple Residential Units

Minimum monthly charge:	\$17.24 per unit
Commodity Charge:	\$4.12 per 1,000 gallons

Order Exhibit 2

Docket No. 2007-243-WS

Order No. 2007-888

December 18, 2007

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2. Fire Hydrant Usage

A.	Installation charge	\$65.00
B.	Advance payment	\$75.00
C.	Commodity charge	\$4.17 per 1,000 gallons

3. Reconnection Fees

A.	Disconnection/Reconnect at Customer's Request	\$50.00
B.	Disconnection/Reconnect due to Nonpayment	\$50.00

4. Tap Fees

Single Units

¾" meter:	\$1,200.00
1" meter:	\$1,600.00
1 ½" meter:	\$1,800.00
2" meter:	\$2,700.00

Master Meter for Multiple Units

1" to 2" Meter (plus cost meter installation)	\$1,200.00 per unit
Greater than 2" Meter (plus cost of meter installation)	\$600 per unit

5. Advance Payment

For water used during construction (paid with tap fees)	\$100.00
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SEWER

1. Monthly Fees

A. Residential	\$37.00
B. Commercial	\$37.00 (minimum for 10,500 gal) \$1.50 per 1,000 gal Excess usage

2. Tap Fees

A. Residential	\$500.00
B. Trailer Park	\$250.00 per pad
C. Commercial (Water supplied through 1" to 1 ½" meter)	\$850.00

GENERAL

1. Administrative set-up fee for new customers	\$25.00
2. Pass through rate increase from Beaufort-Jasper Water and Sewer Authority (BJWSA) and Fripp Island Public Service District (FIPSD) after a 60-day notice to SC PSC and a 30-Day notice to customers	At Cost
3. Authority to recover administrative and legal fees from delinquent accounts	\$10.00